

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
PENDLETON COUNTY FISCAL COURT

June 30, 2006

The Auditor of Public Accounts has completed the audit of the Pendleton County Fiscal Court for fiscal year ended June 30, 2006.

We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Pendleton County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pendleton County's major federal programs.

Financial Condition:

The fiscal court had total net assets of \$4,685,361 as of June 30, 2006. The fiscal court had unrestricted net assets of \$2,609,657 in its governmental activities as of June 30, 2006, with total net assets of \$4,682,509. The fiscal court had total debt principal as of June 30, 2006 of \$1,146,863 with \$158,689 due within the next year.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pendleton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pendleton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2007 on our consideration of Pendleton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 30, 2007

PENDLETON COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Henry W. Bertram	County Judge/Executive
Jack Sumpter	Magistrate
Gary Veirs	Magistrate
Stacey Wells	Magistrate
Paul Dickison	Magistrate

Other Elected Officials:

C. Donald Wells	County Attorney
Gary Hutchinson	Jailer
Rita Spencer	County Clerk
Mike Redden	Circuit Court Clerk
Lark O' Hara	Sheriff
John Steele	Property Valuation Administrator
John Peoples	Coroner

Appointed Personnel:

Vicky King	County Treasurer
Sylvia McClanahan	Finance Officer

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Commonwealth of Kentucky

Magistrates

Paul Dickison

Jack Sumpter

Henry W. Bertram

Pendleton County Judge/Executive

233 Main St. Room 4

Falmouth, Kentucky 41040

Ph (859) 654-4321 Fax (859) 654-5047

pendjud@fuse.net

www.pendletoncountky.org

Magistrates

Gary Veirs

Stacey Wells

Management's Discussion and Analysis June 30, 2006

The financial management of Pendleton County, Kentucky offers readers of Pendleton County's financial statements this narrative overview and analysis of the financial activities of Pendleton County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Pendleton County had total net assets of \$4,685,361 as of June 30, 2006. The fiscal court had unrestricted net assets of \$2,609,657 in its governmental activities as of June 30, 2006. Total debt principal as of June 30, 2006 was \$1,146,863 with \$158,689 due within one year.
- The government's total net assets increased by \$835,709 from the prior year. This increase is primarily due to the additions of the county's capital assets and infrastructure assets.
- At the close of the current fiscal year, Pendleton County's balance sheet reported a fund balance of \$2,612,509.
- Pendleton County's total indebtedness at the close of fiscal year June 30, 2006 was \$1,146,863 of which \$988,174 is long-term debt (due after 1 year) and \$158,689 is short-term debt (to be paid within 1 year). Debt reductions were \$152,825 during the year.
- In addition Pendleton County purchased equipment for the Road Department, County Offices, The Emergency Operations Center, County Dispatch, and the Ambulance Department in the amount of \$323,686. Several county roads were blacktopped at a cost to the county of \$458,008. The county also purchased three county vehicles at a total cost of \$97,999.

**Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Highlights (Continued)

- Pendleton County was awarded a grant in the amount of \$9,678 for cemetery preservations throughout Pendleton County. A grant in the amount of \$75,000 was awarded to Pendleton County to be used to purchase new voting machines. Pendleton County also received a LWCF grant in the amount of \$75,000 for improvements to the athletic park. The Fiscal court received \$26,644 in litter abatement funds to be used to clean up litter from state and county roads.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Pendleton County's basic financial statements. Pendleton County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Pendleton County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Pendleton County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pendleton County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

**Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Government-wide Financial Statements. (Continued)

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Pendleton County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has no business-type activities.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pendleton County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Pendleton County are in one broad category: *governmental funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pendleton County maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and LGFA Fund all of which are considered major funds by the County. The Jail Fund, Ambulance Fund, 911 Fund, and Mental Health Fund are considered non-major funds and are presented in a combined form.

Pendleton County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1

Pendleton County Net Assets

	Governmental Activities	
	2005	2006
Assets		
Current and Other Assets	\$ 2,672,507	\$ 2,687,509
Capital Assets	2,476,833	3,144,715
Total Assets	5,149,340	5,832,224
Liabilities		
Current Liabilities	152,790	158,689
Long-term Liabilities	1,146,898	988,174
Total Liabilities	1,299,688	1,146,863
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,177,145	1,997,852
Restricted	80,000	75,000
Unrestricted	2,592,507	2,612,509
Net Assets	\$ 3,849,652	\$ 4,685,361

Changes in Net Assets

Governmental Activities. Pendleton County's net assets increased by \$835,709 in fiscal year 2006. Key elements of this are as follows:

- Current assets and cash increased by \$14,987.
- Investment in capital assets, net of related debt increased \$820,707 primarily due to additions in infrastructure assets and other capital assets.
- Current and long-term liabilities decreased by \$152,825.
- Revenues were \$5,214,391 as reflected in the Statement of Activities.
- Expenditures totaled \$4,378,697 as reflected in the Statement of Activities.

Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Changes in Net Assets (Continued)

Business-type Activities. Pendleton County's net assets increased by \$15 in fiscal year 2006. Key elements of this are as follows:

- Interest earned on checking account

Table 2

Pendleton County Statement of Activities

	Governmental Activities	
	2005	2006
Program Revenues		
Charges for Services	\$ 362,091	\$ 574,922
Operating Grants and Contributions	1,690,421	1,541,845
Capital Grants and Contributions	1,787,374	1,569,411
Total Program Revenues	3,839,886	3,686,178
General Revenues		
Taxes	1,184,497	1,349,053
Excess Fees	63,380	43,773
Unrestricted Investment Revenues	79,738	100,735
Miscellaneous Revenues	121,575	34,667
Total General Revenues	1,449,190	1,528,228
Total Revenues	5,289,076	5,214,406
Program Expenses		
General Government	1,069,000	1,056,755
Protection to Persons and Property	1,561,557	1,696,021
General Health and Sanitation	1,437,252	641,371
Social Services	23,572	15,460
Recreation and Culture	75,739	218,353
Roads	573,421	685,779
Airports		10,000
Debt Service	53,367	52,310
Capital Projects	1,028	2,648
Total Expenses	4,794,936	4,378,697
Change In Net Assets	494,140	835,709
Net Assets - Beginning (Restated)	3,355,512	3,849,652
Net Assets - Ending	\$ 3,849,652	\$ 4,685,361

**Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of the County's Funds

As noted earlier, Pendleton County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Pendleton County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2006 fiscal year, the combined ending fund balance of County governmental funds was \$2,612,509. 94% of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$151,790) is reserved to indicate that it is not available for new spending because it is committed.

The County has 3 major governmental funds. These are: 1) General Fund, 2) Road Fund, and 3) LGEA Fund. There are 4 non-major funds. They are the Jail Fund, Ambulance Fund, Emergency 911 Fund, and the Mental Health Mental Retardation Fund.

1. The General Fund is the chief operating fund of Pendleton County. At the end of the June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$425,840. The county received \$601,620 in real property tax revenues. This accounts for approximately 32% of the general fund revenue. \$121,344 was received from motor vehicle taxes and accounts for approximately 3% of the county's general fund revenues. Various other taxes and service fees make up the remaining 65% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$828,146 in fund balance at June 30, 2006. The fiscal year 2005 expenditures for road projects were \$1,072,243.
3. The LGEA Fund had a fund balance of \$1,111,187; this includes Debt Reserve CD's in the amount of \$696,542.
4. The Jail Fund had a fund balance at June 30, 2006 of \$27,600. The General Fund contributed \$350,000 to the jail operations. Total revenue received in the Jail Fund was \$80,166.
5. The Ambulance Fund was created to provide ambulance service to the residents of Pendleton County. The Fund had a fund balance of \$30,617 at the end of the fiscal year. Total expenditures for the Ambulance fund were \$340,874 while total revenue was \$259,849, transfers to support the ambulance fund was \$90,000 coming from the LGEA Fund.

**Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of the County's Funds (Continued)

6. The Emergency 911 Dispatch Fund accounts for the operation of the County's emergency operations communications. It is supported primarily from 911 Telephone tax, and total revenues were \$232,826. The Fund had a fund balance of \$25,579 at the end of the June 30, 2006 fiscal year.
7. The Mental Health/Mental Retardation Fund had a fund balance of \$44,813 at the end of the Fiscal Year. The only source of revenue for the Fund is Property Tax and Motor Vehicle Tax.

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$577,520. Budget amendments were made to all areas due to surplus cash carried forward.

Actual operating revenues were \$349,526 less than amount originally budgeted by Fiscal Court. This decrease was primarily due to anticipated revenues from intergovernmental sources.

Actual operating expenditures were \$866,877 less than the amount budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets. Pendleton County's investment in capital assets for its governmental activities in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2006 fiscal year included the resurfacing of various county roads, purchasing equipment for county road department, county offices, emergency operations center, county dispatch, and county ambulance service.

Additional information on the County's capital assets can be found in Note 3 of this report.

Long-Term Debt. At the end of the 2006 fiscal year, Pendleton County had total long-term debt outstanding of \$1,146,863. The amount of this debt due within the next year is \$158,689 and \$988,174 is due in subsequent years. This debt is for the Pendleton County Water District Building, the County Garage, and waterline extensions. This debt is described in Note 6 of the notes to the financial statements.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- At the end of fiscal year 2006 it became noticeable that mining severance revenue would discontinue its decline and perhaps make an upward increase. The revenue received from mineral severance is an extremely unpredictable revenue source.

**Pendleton County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Capital Assets and Debt Administration (Continued)

Other matters. (Continued)

- The lack of a state budget and the financial condition of state revenues may continue to jeopardize county projects and county programs that are state mandated. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.
- The need to bring Advance Life Support Services into Pendleton County prompted the implementation of a county wide occupational tax. The revenue expected to be generated from this tax was approximately \$250,000 to be used for the purpose of providing Advance Life Support service to the residents of Pendleton County. Based on collections through for the last two quarters of fiscal year 2006 it is estimated that revenues from this tax source may bypass this estimate by as much of \$80,000.

Requests For Information

This financial report is designed to provide a general overview of Pendleton County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Pendleton County Treasurer, 233 Main Street, Falmouth, KY 41040.

PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,612,509
Water District Receivable	5,000
Total Current Assets	<u>2,617,509</u>
Noncurrent Assets:	
Water District Receivable	70,000
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	107,548
Buildings and Building Improvements	669,363
Vehicles	401,756
Equipment	609,835
Infrastructure Assets - Net of Depreciation	<u>1,356,213</u>
Total Noncurrent Assets	<u>3,214,715</u>
Total Assets	<u>5,832,224</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	158,689
Noncurrent Liabilities:	
Financing Obligations	<u>988,174</u>
Total Liabilities	<u>1,146,863</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,997,852
Restricted	75,000
Unrestricted	<u>2,612,509</u>
Total Net Assets	<u><u>\$ 4,685,361</u></u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		<u>Program Revenues Received</u>		
Functions/Programs			Operating	Capital
Reporting Entity	Expenses	Charges for	Grants and	Grants and
		Services	Contributions	Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,056,755	\$ 19,012	\$ 79,852	\$ 75,000
Protection to Persons and Property	1,696,021	264,414	149,608	800,333
General Health and Sanitation	641,371	284,934		282,623
Social Services	15,460			
Recreation and Culture	218,353			
Roads	685,779	6,562	1,312,385	411,455
Airports	10,000			
Debt Service	52,310			
Capital Projects	2,648			
Total Governmental Activities	<u>\$ 4,378,697</u>	<u>\$ 574,922</u>	<u>\$ 1,541,845</u>	<u>\$ 1,569,411</u>

General Revenues:

Taxes:

Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Occupational Taxes
 911 Taxes
 Mental Health Taxes
 Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses)
Revenues and Changes
in Net Assets

Primary
Government

Governmental
Activities

\$	881,891
	(481,666)
	(73,814)
	15,460
	(218,353)
	1,044,623
	(10,000)
	(52,310)
	(2,648)
	<hr/>
\$	(692,519)
	<hr/>

\$	601,620
	65,482
	121,344
	93,398
	173,273
	109,501
	184,435
	43,773
	34,667
	100,735
	<hr/>
	1,528,228
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	835,709
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	3,849,652
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\$	4,685,361
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The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Local Government Economic Assistance Fund	Non- Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 544,567	\$ 828,146	\$ 1,111,187	\$ 128,609	\$ 2,612,509
Total Assets	<u>\$ 544,567</u>	<u>\$ 828,146</u>	<u>\$ 1,111,187</u>	<u>\$ 128,609</u>	<u>\$ 2,612,509</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 118,727	\$ 26,303	\$ 846	\$ 5,914	\$ 151,790
Unreserved:					
General Fund	425,840				425,840
Special Revenue Funds		801,843	1,110,341	122,695	2,034,879
Total Fund Balances	<u>\$ 544,567</u>	<u>\$ 828,146</u>	<u>\$ 1,111,187</u>	<u>\$ 128,609</u>	<u>\$ 2,612,509</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,612,509
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	4,173,732
Accumulated Depreciation	(1,029,017)
Water District Receivables Not Due and Collected in the Current Period and, Therefore,	
are Not Reported in the Funds.	75,000
Long-Term Debt is Not Due and Payable in the Current Period and, Therefore, is Not	
Reported in the Funds.	
Financing Obligations	<u>(1,146,863)</u>
Net Assets Of Governmental Activities	<u>\$ 4,685,361</u>

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PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Local Government Economic Assistance Fund
REVENUES			
Taxes	\$ 1,033,074	\$	\$
Excess Fees	43,773		
Licenses and Permits	9,043		
Intergovernmental	450,174	1,352,513	1,179,028
Charges for Services	295,634		
Miscellaneous	37,910	7,012	
Interest	33,110	42,375	25,730
Total Revenues	<u>1,902,718</u>	<u>1,401,900</u>	<u>1,204,758</u>
EXPENDITURES			
General Government	521,728		1,980
Protection to Persons and Property	237,266		714,793
General Health and Sanitation	497,071		15,000
Social Services	14,344		1,116
Recreation and Culture	191,585		26,768
Roads		1,072,243	
Airports	10,000		
Debt Service	26,569		161,366
Capital Projects	2,648	12,200	
Administration	454,948	80,676	1,175
Total Expenditures	<u>1,956,159</u>	<u>1,165,119</u>	<u>922,198</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(53,441)</u>	<u>236,781</u>	<u>282,560</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	72,666		
Transfers To Other Funds	<u>(375,000)</u>	<u>(70,000)</u>	<u>(90,000)</u>
Total Other Financing Sources (Uses)	<u>(302,334)</u>	<u>(70,000)</u>	<u>(90,000)</u>
Net Change in Fund Balances	(355,775)	166,781	192,560
Fund Balances - Beginning (Restated)	900,342	661,365	918,627
Fund Balances - Ending	<u>\$ 544,567</u>	<u>\$ 828,146</u>	<u>\$ 1,111,187</u>

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 303,277	\$ 1,336,351
	43,773
	9,043
145,084	3,126,799
249,480	545,114
2,335	47,257
4,854	106,069
<u>705,030</u>	<u>5,214,406</u>
	523,708
961,923	1,913,982
128,100	640,171
	15,460
	218,353
	1,072,243
	10,000
	187,935
	14,848
60,905	597,704
<u>1,150,928</u>	<u>5,194,404</u>
<u>45,913</u>	<u>19,987</u>
465,000	537,666
(2,666)	(537,666)
<u>462,334</u>	<u></u>
16,421	19,987
112,173	2,592,507
<u>\$ 128,594</u>	<u>\$ 2,609,657</u>

The accompanying notes are an integral part of the financial statements.

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**PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 19,987
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	914,042
Depreciation Expense	(246,160)
Accounts Receivable Collections are Booked in the Governmental Funds as a Source of Revenue. These Transactions, However, Have no Effect on Net Assets.	
Long-term Debt Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have No Effect on Net Assets.	(5,000)
Financing Obligations Principal Payments	<u>152,825</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 835,694</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable, are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pendleton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the criteria stated in GASB 14 and 39, there are no component units, which merit consideration as part of the reporting entity.

C. Pendleton County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Pendleton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pendleton County, Kentucky.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Pendleton County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Jail Fund, Ambulance Fund, Emergency 911 Fund, and Mental Health/Mental Retardation Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Jail Fund, Ambulance Fund, Emergency 911 Fund, and Mental Health/Mental Retardation Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	N/A
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Pendleton County Fiscal Court: Pendleton County Water District, East Pendleton Water District, West Pendleton Water District, Airport Board, Conservation District and Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture among the Pendleton County Fiscal Court, the City of Falmouth, the City of Butler, and the Pendleton County Schools: Parks and Recreation Agency. The Planning Commission is a joint venture among Pendleton County, the City of Falmouth, and the City of Butler. The Northern Kentucky Regional Hazmat – WMD Response Unit, Inc. is a joint venture among Pendleton, Boone, Campbell, Carroll, Gallatin, Grant, Kenton, Owen, and Scott Counties.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 107,548	\$	\$	\$ 107,548
Construction In Progress	66,545		(66,545)	
Total Capital Assets Not Being Depreciated	174,093			107,548
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	746,527	100,894		847,421
Vehicles	632,322	97,999		730,321
Equipment	608,639	323,686		932,325
Infrastructure	1,098,109	458,008		1,556,117
Total Capital Assets Being Depreciated	3,085,597	980,587		4,066,184
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(159,527)	(18,531)		(178,058)
Vehicles	(276,422)	(52,143)		(328,565)
Equipment	(247,296)	(75,194)		(322,490)
Infrastructure	(99,612)	(100,292)		(199,904)
Total Accumulated Depreciation	(782,857)	(246,160)		(1,029,017)
Total Capital Assets, Being Depreciated, Net	2,302,740	734,427		3,037,167
Governmental Activities Capital Assets, Net	\$ 2,476,833	\$ 734,427	\$ 0	\$ 3,144,715

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 13,472
Protection to Persons and Property	87,124
General Health and Sanitation	1,200
Roads, Including Depreciation of General Infrastructure Assets	<u>144,364</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 246,160</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 4. Water District Receivable

On April 3, 1997, Pendleton County entered into a twenty-year agreement to sublease a 3,700 square foot commercial and office building and land to the Pendleton County Water District. Interest is paid to the county on a monthly basis and a principal payment is made annually to the county until the termination of the sublease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 5,000	\$ 4,649
2008	5,000	4,330
2009	6,000	3,985
2010	6,000	3,602
2011	6,000	3,220
2012-2016	37,000	9,474
2017	10,000	372
Totals	<u>\$ 75,000</u>	<u>\$ 29,632</u>

Note 5. Short-term Debt

In July 2005, Pendleton County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,164,400, with principal being due in January 2006. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$5,334.

Note 6. Long-term Debt

A. Water District Financing Obligation

On April 3, 1997, Pendleton County entered into a twenty-year agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the financing and purchase of a 3,700 square foot commercial and office building and land for the Pendleton County Water District. Interest is paid on a monthly basis, and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 5,000	\$ 4,649
2008	5,000	4,330
2009	6,000	3,985
2010	6,000	3,602
2011	6,000	3,220
2012-2016	37,000	9,474
2017	10,000	372
Totals	<u>\$ 75,000</u>	<u>\$ 29,632</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 6. Long-term Debt (Continued)

A. Water District Financing Obligation (Continued)

The Pendleton County Fiscal Court subsequently entered into a sublease with the Pendleton County Water District for the building and land. As of fiscal year end, the Water District was in substantial compliance with the terms of the sublease agreement.

B. Financing Obligations with Finance and Administration Cabinet

On February 20, 2003, the Pendleton County Fiscal Court entered into an agreement with the Secretary of the Finance Administration Cabinet to purchase a state maintenance garage to house the county road department. Principal is paid annually in the amount of \$12,200. The following table shows future principal payment requirements.

Fiscal Year Ended June 30	Governmental Activities
	Principal
2007	\$ 12,200
2008	12,200
2009	12,200
2010	12,200
2011	12,200
2012	12,200
Totals	<u>\$ 73,200</u>

C. Waterline Extensions Financing Obligation

The Pendleton County Fiscal Court entered into an agreement with Fifth Third Bank to refinance the Pendleton County Public Properties Corporation issued bonds, Certificate of Participation Series 1993. The amount refinanced totaled \$1,511,456. This included principal of \$1,450,000 and refinancing charges of \$61,456. Pendleton County principal payments are due December 1 and June 1 of each year through June 1, 2013. Interest is 3.8% and is payable each December 1 and June 1. The following table shows future principal payment requirements.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 124,728	\$ 36,638
2008	129,496	31,870
2009	134,617	26,749
2010	139,853	21,512
2011	145,293	16,072
2012-2013	307,915	15,035
Totals	<u>\$ 981,902</u>	<u>\$ 147,876</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 6. Long-term Debt (Continued)

D. Sheriff's Vehicles

On February 11, 2004 Pendleton County entered into a three-year agreement with Farmers Bank & Capital Trust Company for the financing and purchase of two Sheriff's vehicles. Fiscal Court budgets and pays for most of this expenditure, with the Sheriff's department paying the remainder. Principal and interest payments are made annually as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 16,761	\$ 213
Totals	<u>\$ 16,761</u>	<u>\$ 213</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 1,299,688	\$	\$ 152,825	\$ 1,146,863	\$ 158,689
Governmental Activities					
Long-term Liabilities	<u>\$ 1,299,688</u>	<u>\$ 0</u>	<u>\$ 152,825</u>	<u>\$ 1,146,863</u>	<u>\$ 158,689</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$46,241 in interest on financing obligations.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 8. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

Pendleton County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2006, Pendleton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustment

Beginning net assets has been restated by \$145,792 from \$3,701,023 to \$3,846,815 because \$753 in cash was recorded in error in the prior year. Also, construction in progress totaling \$66,545 and receivables totaling \$80,000 were unrecorded in the prior year. The beginning fund balance in the General Fund was restated because \$753 in cash was recorded in the prior year in error.

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PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 777,400	\$ 777,400	\$ 1,033,074	\$ 255,674
Excess Fees	63,448	63,448	43,773	(19,675)
Licenses and Permits	7,900	7,900	9,043	1,143
Intergovernmental Revenue	1,053,000	1,062,678	450,174	(612,504)
Charges for Services	280,268	280,268	295,634	15,366
Miscellaneous	51,550	51,550	37,910	(13,640)
Interest	9,000	9,000	33,110	24,110
Total Revenues	<u>2,242,566</u>	<u>2,252,244</u>	<u>1,902,718</u>	<u>(349,526)</u>
EXPENDITURES				
General Government	547,650	569,874	521,728	48,146
Protection to Persons and Property	3,650	239,117	237,266	1,851
General Health and Sanitation	827,000	830,265	497,071	333,194
Social Services	15,700	25,378	14,344	11,034
Recreation and Culture	177,000	228,950	191,585	37,365
Airports	5,000	10,000	10,000	
Debt Service	10,000	26,600	26,569	31
Capital Projects	32,000	32,000	2,648	29,352
Administration	627,516	860,852	454,948	405,904
Total Expenditures	<u>2,245,516</u>	<u>2,823,036</u>	<u>1,956,159</u>	<u>866,877</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,950)</u>	<u>(570,792)</u>	<u>(53,441)</u>	<u>517,351</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	70,000	70,000	72,666	2,666
Transfers To Other Funds	(404,950)	(504,950)	(375,000)	129,950
Revenue Anticipation Note Proceeds	5,400	5,400		(5,400)
Total Other Financing Sources (Uses)	<u>(329,550)</u>	<u>(429,550)</u>	<u>(302,334)</u>	<u>127,216</u>
Net Changes in Fund Balance	(332,500)	(1,000,342)	(355,775)	644,567
Fund Balance - Beginning (Restated)	<u>332,500</u>	<u>1,000,342</u>	<u>900,342</u>	<u>(100,000)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 544,567</u>	<u>\$ 544,567</u>

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,241,550	\$ 1,241,550	\$ 1,352,513	\$ 110,963
Miscellaneous	4,700	4,700	7,012	2,312
Interest	10,000	10,000	42,375	32,375
Total Revenues	1,256,250	1,256,250	1,401,900	145,650
EXPENDITURES				
Roads	1,185,275	1,746,590	1,072,243	674,347
Capital Projects	12,200	12,200	12,200	
Administration	88,950	88,950	80,676	8,274
Total Expenditures	1,286,425	1,847,740	1,165,119	682,621
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(30,175)	(591,490)	236,781	828,271
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		100,000		(100,000)
Transfers To Other Funds	(70,000)	(70,000)	(70,000)	
Revenue Anticipation Note Proceeds	125	125		(125)
Total Other Financing Sources (Uses)	(69,875)	30,125	(70,000)	(100,125)
Net Changes in Fund Balance	(100,050)	(561,365)	166,781	728,146
Fund Balance - Beginning	100,050	561,365	661,365	100,000
Fund Balance - Ending	\$ 0	\$ 0	\$ 828,146	\$ 828,146

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 827,200	\$ 927,200	\$ 1,179,028	\$ 251,828
Miscellaneous	1,000	1,000		(1,000)
Interest	3,000	3,000	25,730	22,730
Total Revenues	831,200	931,200	1,204,758	273,558
EXPENDITURES				
General Government	2,000	2,000	1,980	20
Protection to Persons and Property	517,610	732,212	714,793	17,419
General Health and Sanitation	15,000	15,000	15,000	
Social Services	2,400	2,400	1,116	1,284
Recreation and Culture	29,274	29,654	26,768	2,886
Roads	1,000	1,000		1,000
Debt Service	161,500	161,500	161,366	134
Administration	126,450	141,545	1,175	140,370
Total Expenditures	855,234	1,085,311	922,198	163,113
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(24,034)	(154,111)	282,560	436,671
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(90,000)	(90,000)	(90,000)	
Total Other Financing Sources (Uses)	(90,000)	(90,000)	(90,000)	
Net Changes in Fund Balances	(114,034)	(244,111)	192,560	436,671
Fund Balances - Beginning	114,034	244,111	918,627	674,516
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,111,187	\$ 1,111,187

PENDLETON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	Ambulance Fund	Emergency 911 Fund	Mental Health Mental Retardation Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 27,600	\$ 30,617	\$ 25,579	\$ 44,813	\$ 128,609
Total Assets	<u>\$ 27,600</u>	<u>\$ 30,617</u>	<u>\$ 25,579</u>	<u>\$ 44,813</u>	<u>\$ 128,609</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 3,386	\$ 548	\$ 1,980	\$	\$ 5,914
Unreserved:					
Special Revenue Funds	<u>24,214</u>	<u>30,069</u>	<u>23,599</u>	<u>44,813</u>	<u>122,695</u>
Total Fund Balances	<u>\$ 27,600</u>	<u>\$ 30,617</u>	<u>\$ 25,579</u>	<u>\$ 44,813</u>	<u>\$ 128,609</u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 205

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Ambulance Fund	Emergency 911 Fund	Mental Health Mental Retardation Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$	\$ 173,273	\$ 130,004	\$ 303,277
Intergovernmental	76,766	10,017	58,301		145,084
Charges for Services		249,480			249,480
Miscellaneous	2,295	26	14		2,335
Interest	1,105	326	1,238	2,185	4,854
Total Revenues	<u>80,166</u>	<u>259,849</u>	<u>232,826</u>	<u>132,189</u>	<u>705,030</u>
EXPENDITURES					
Protection to Persons and Property	412,658	340,874	208,391		961,923
General Health and Sanitation				128,100	128,100
Administration	12,328		48,577		60,905
Total Expenditures	<u>424,986</u>	<u>340,874</u>	<u>256,968</u>	<u>128,100</u>	<u>1,150,928</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(344,820)</u>	<u>(81,025)</u>	<u>(24,142)</u>	<u>4,089</u>	<u>(445,898)</u>
Other Financing Sources (Uses)					
Transfers To Other Funds				(2,666)	(2,666)
Transfers From Other Funds	350,000	90,000	25,000		465,000
Total Other Financing Sources (Uses)	<u>350,000</u>	<u>90,000</u>	<u>25,000</u>	<u>(2,666)</u>	<u>462,334</u>
Net Change in Fund Balances	5,180	8,975	858	1,423	16,436
Fund Balances - Beginning	22,420	21,642	24,721	43,390	112,173
Fund Balances - Ending	<u>\$ 27,600</u>	<u>\$ 30,617</u>	<u>\$ 25,579</u>	<u>\$ 44,813</u>	<u>\$ 128,609</u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2006

**PENDLETON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Pendleton County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pendleton County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pendleton County reported in Part C of this schedule.
7. The programs tested as major programs were: State Domestic Preparedness Equipment Support Program CFDA #97.004.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pendleton County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

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PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department Of Homeland Security</u>		
Passed-Through State Office of Homeland Security		
Kentucky Exercise and Evaluation Program (CFDA # 97.073)	M-05286905	\$ 360
Northern Kentucky Hazmat/ WMD Response Unit (CFDA # 97.004)	M-04602663	139,552
Emergency Services Communication Grant Project (CFDA # 97.004)	M-04595687	311,207
Northern Kentucky Hazmat/ WMD Response Unit (CFDA # 97.067)	M-05354728	100,000
Passed-Through State Department of Military Affairs		
Northern Kentucky Hazmat/ WMD Response Unit (CFDA # 97.004)	M-03255125	37,686
Emergency Operations Plan & Emergency Resource Inventory List Program (CFDA # 97.004)	M-04647883	<u>2,500</u>
Total U.S. Department Of Homeland Security		<u>\$ 591,305</u>
<u>U.S. Department Of The Interior</u>		
Passed-Through State - Governor's Office for Local Development		
Land and Water Conservation Fund Act - Pendleton County Athletic Park Program (CFDA # 15.916)	M-02327437	<u>\$ 75,000</u>
Cash Programs:		
<u>U.S. Election Assistance Commission</u>		
Passed-Through State Board of Elections:		
Help America Vote Act (CFDA # 90.401)		<u>\$ 75,000</u>
Total Cash Expenditures Of Federal Awards		<u><u>\$ 741,305</u></u>

PENDLETON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pendleton County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 30, 2007. Pendleton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pendleton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pendleton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 30, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pendleton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Pendleton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pendleton County's management. Our responsibility is to express an opinion on Pendleton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pendleton County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pendleton County's compliance with those requirements.

In our opinion, Pendleton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Pendleton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pendleton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 30, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

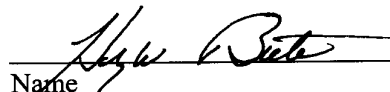
PENDLETON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

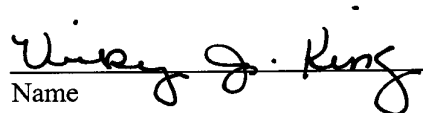
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Pendleton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

